

Section 4.1: Fundraising & Development

- ◆ **From FY 1993-94 through FY 1998-99, the Zoological Society raised a total of approximately \$47.5 million in contributions, membership dues, fund raising, and bequests for operations and capital projects.**
- ◆ **We found that, in general, the Development Department has been able to meet its fundraising goals for annual operating expenses. In addition, the Zoological Society has raised approximately \$21 million of the \$25 million required for capital improvements under the lease agreement, including written, contingency, and verbal pledges.**
- ◆ **There is potential for improvement in certain areas. For example, there is potential to improve the Zoological Society's performance in recruiting and retaining members. Also, costs for certain fundraising activities are excessive.**
- ◆ **The Zoological Society should implement cost reduction measures, including eliminating one Events staff position and the Associate Membership Director position, and continue to evaluate the profitability of certain events in order to determine whether there is potential to reduce costs or increase revenues, or whether certain events should be discontinued.**
- ◆ **The implementation of our recommendations would result in savings of approximately \$108,391 annually and would improve the profitability and performance of the Zoological Society's Development programs.**

As part of our performance audit of the San Francisco Zoological Gardens, we examined the Zoological Society's fundraising and development functions in order to evaluate its ability to raise funds for both operating expenses and capital projects through memberships, individual and corporate gifts, events, Board of Directors contributions, and bequests.

To accomplish these objectives, we:

- Interviewed personnel in the Development Department, including the Development Director, Associate Director of Development, Director of Major Gifts, Events Director and Membership Director;
- Reviewed documentation on the Zoological Society's current and past fundraising efforts and membership and event literature;

- Examined budgeted and actual expenditures for the Fundraising, Membership and Events programs for the current and past five fiscal years;
- Reviewed performance measures such as returns on investment and the number and level of contributions, grants and memberships, in order to evaluate fundraising efforts; and
- Conducted research of development practices at comparable zoos and other similar organizations.

Fundraising for the Annual Operating Budget

As part of the 1996 Strategic Plan for the Zoo, the consulting firms of CLRdesign Inc. and Schultz & Williams Inc. examined the percentage of annual operating revenue that came from various funding sources, including admission fees, visitor revenue, memberships, development, and public subsidies, at 73 zoos and at the 33 zoos with annual operating budgets in excess of \$5 million, using data from a 1996 American Zoological Association (AZA) survey. The results of this analysis, as well as current data for San Francisco Zoo, are shown in Table 4.1.1 below.

Table 4.1.1
Percentage of Operating Revenues from Various Funding Sources,
1996 - 1999

Funding Source	Zoos with Annual Operating Budgets > \$5 million (1996)	Average for all Zoos (1996)	San Francisco Zoo (1997)	San Francisco Zoo (1999)
Admission Fees	27.5%	35.1%	17.1%	17.0%
Visitor Revenue	22.9%	22.7%	27.2%	30.5%
Membership	10.6%	9.7%	10.4%	10.3%
Development	7.9%	9.6%	14.3%	15.0%
Public Subsidy	38.0%	36.8%	31.0%	26.0%

As shown in Table 4.1.1, San Francisco Zoo receives a lower percentage of its operating revenue from admission fees and public subsidies than the other zoos in the survey. Moreover, these percentages have declined since 1997. The Strategic Plan concluded that, as a result, this places more pressure on the Zoological Society to raise operating revenue through its Development, Membership and Visitor Services Programs.

The Development Department is divided into three programs: Fundraising, Membership, and Events. Staffing levels for each program are shown in Table 4.1.2 below.

Table 4.1.2
Staffing Levels by Program,
Zoological Society Development Department

	No. of FTEs
Fundraising:	
Development Director	0.5
Associate Director of Development	0.5
Director of Major Gifts	0.6
Administrative Assistant	1.0
<u>Office Assistant*</u>	<u>0.5</u>
Subtotal - Fundraising	3.1
Membership-	
Membership Director	0.6
Associate Director of Membership	1.0
<u>Membership Assistants</u>	<u>3.2</u>
Subtotal - Membership	4.8
Events:	
Events Director	1.0
Associate Director of Events	1.0
<u>Office Assistant*</u>	<u>0.5</u>
Subtotal - Events	2.5
Total - Development	10.4

* This position is shared by Fundraising and Events.

All of the positions shown above are responsible for raising money to fund the Zoo's annual operating budget. The Development Director oversees the entire Development Department, as well as the Marketing Department. The Associate Director of Development handles corporate and foundation gifts and writes grant proposals. The Director of Major Gifts is responsible for generating individual and Board member contributions. The Membership Director and Associate Director of Membership recruit and retain members through on-site sales, renewal requests, direct mail campaigns, telemarketing, the Adopt-An-Animal Program, and other methods. The Membership Assistants process memberships and staff the Membership booth located at the Zoo's main entrance. The Events Director and Associate Director of Events plan, organize, and produce fundraising and member events such as Night Tour, Twilight Safari, Sex Tour, Zoo Fest, and Zoo Fest for Kids. As of the writing of this report, the Development Director reported that the functions of the Associate Director of Development had been modified to include corporate sponsorships and to exclude foundation gifts. The job title has been changed to Director of Corporate Relations.

Table 4.1.3 shows the FY 1998-99 operating budgets for the Fundraising, Membership and Event Programs.

Table 4.1.3
FY 1998-99 Operating Budgets,
Fundraising, Membership and Event Programs

	Fundraising	Membership	Events
REVENUES			
Individual Contributions	\$ 520,000	\$ -	\$ -
Foundation Contributions	\$ 150,000	\$ -	\$ -
Corporate Contributions	\$ 275,000	\$ -	\$ -
Board Member Contributions	\$ 450,000	\$ -	\$ -
Membership Dues	\$ -	\$ 1,484,000	\$ -
Adopt-an-Animal Program	\$ -	\$ 109,000	\$ -
Fundraising Events	\$ -	\$ -	\$ 657,785
TOTAL REVENUES	\$ 1,395,000	\$ 1,593,000	\$ 657,785
EXPENDITURES			
Personnel Expenses	\$ 216,077	\$ 245,445	\$ 101,684
Non-Personnel Expenses:			
Office Supplies	\$ 8,500	\$ 29,050	\$ -
Printing/Design	\$ 14,350	\$ 35,900	\$ -
Postage	\$ 10,000	\$ 32,450	\$ -
Annual Fund Expenses	\$ 29,000	\$ -	\$ -
Donor Relations	\$ 17,500	\$ -	\$ -
Other Expenses	\$ 13,000	\$ 34,780	\$ -
Computer Consulting	\$ -	\$ 22,040	\$ -
Direct Mail Member Acquisition	\$ -	\$ 80,001	\$ -
Direct Mail Membership Renewal	\$ -	\$ 42,600	\$ -
Telemarketing	\$ -	\$ 35,000	\$ -
Membership Benefits	\$ -	\$ 16,018	\$ -
Zoo Views Membership Publication	\$ -	\$ 151,074	\$ -
On-site Membership Sales	\$ -	\$ 17,400	\$ -
Member Event Expenses	\$ -	\$ 30,200	\$ -
Fundraising Event Expenses	\$ -	\$ -	\$ 213,394
Total - Non-Personnel	\$ 92,350	\$ 526,513	\$ 213,394
Capital Campaign Offset	\$ (112,320)	\$ (31,680)	\$ -
TOTAL EXPENDITURES	\$ 196,107	\$ 740,278	\$ 315,078

As shown in Table 4.1.3, budgeted revenues exceed expenditures for all three programs. Based on our review of budgeted and actual net income over the period from FY 1993-94 through FY 1997-98, we found that the Development Department has in general been able to meet its fundraising goals for its operating budget.

Fundraising for Capital Projects

Under the lease agreement between the City and the Zoological Society, the Zoological Society is required to meet two goals with respect to fundraising for capital projects. The first goal was to raise \$10,000,000 from private donations for a "Founder's Fund" within the first five years of the agreement. This \$10 million was to be allocated as follows: (a) \$5 million for capital improvements; (b) \$2 million for

operating expenses; and (c) \$3 million for the Zoological Society's Endowment fund. Over the four-year period from July 1, 1992 through June 30, 1996, the Zoological Society raised \$11,494,465 towards the Founder's Fund, supplemented by \$1,570,092 in Zoological Society transition funds, which were expended as follows: (a) \$6,803,243 for capital improvements (Phase I); (b) \$2,044,304 for operating expenses; and (c) \$3,217,010 for the Endowment Fund. The unexpended balance of \$1 million was carried forward to the Phase II Capital Campaign (discussed below).

The second requirement under the lease agreement was for the Zoological Society to raise \$25 million in private donations for the Phase II Capital Campaign "in accordance with the terms of [the] Agreement." This \$25 million would accompany the \$48 million to be generated through proceeds from the 1997 bond measure, for a total of \$73 million for capital improvements. There has been some debate over whether the Zoological Society has met this second fundraising requirement. This is because the phrase "in accordance with the terms of [the] Agreement" can be interpreted in either of two ways: (1) the initial five-year term of the agreement, or (2) the terms of the agreement in general. Some have argued that the Zoological Society should have raised the \$25 million within the first five years of the agreement, or by October 1998. Section 3.1 of this audit report shows that the Zoological Society planned to raise the \$25 million during the first five years of the agreement. However, according to the City Attorney's Office, the reference to "terms" does not refer specifically to the initial five-year term, but rather to the general terms of the agreement, which provides for a maximum term for the agreement of 99 years.

Because of a lawsuit seeking to throw out the June 1997 election results, the sale of the \$48 million in bonds, which was originally scheduled to take place in the autumn of 1998, has been delayed until the summer of 1999. The Development Director reports that the Zoological Society's current goal is to raise the full \$25 million in private donations by December 31, 2000. The privately raised funds would be used to fund design and other preconstruction activities, as well as post-construction costs such as furnishings, fixtures, etc.

The Phase II Capital Campaign officially started on June 1, 1997. Contributions to the Phase II Capital Campaign through December 20, 1999, are shown in Table 4.1.4 below.

Table 4.1.4
Contributions to the Zoological Society's Phase II Capital Campaign
through December 20, 1999

	Amount
Payments Received:	
Prior to FY 1996-97	\$ 699,233
FY 1996-97	\$ 822,563
FY 1997-98	\$ 4,302,427
FYs 1998-99 and 1999-00 thru 12/20/99)	\$ 6,079,049
Total - Payments Received	\$ 11,903,272
Written Pledge Receivables	\$ 5,984,577
Contingency Pledges (3)	\$ 2,016,000
Verbal Pledges (5)	\$ 1,134,500
Total	\$ 21,038,349

As reflected in Table 4.1.4, the Zoological Society raised \$21,038,349¹ in contributions through December 20, 1999. Of this amount, \$11,903,272 represents actual cash receipts, and \$5,984,577 is written pledges payable between April 1, 1999 and June 30, 2003. Contingency pledges, in the amount of \$2,016,000 are written commitments that are contingent upon the occurrence of a specific event, e.g., groundbreaking, matching grants, etc. Lastly, the Zoological Society has received \$1,134,500 in verbal pledges.

Capital Fundraising Staff

In addition to raising funds for the Zoo's annual operating budget, certain Zoological Society staff, including the Development Director, the Associate Director of Development, the Director of Major Gifts, and the Membership Director, also spend a portion of their time raising money for the \$25 million Phase II Capital Campaign. In return, the Development Department's operating budget receives a capital campaign offset of \$144,000 annually. In addition, there are three full-time staff dedicated solely to raising money for the Phase II Capital Campaign: one Special Projects Director, one Associate Campaign Coordinator and one Associate Director of Events. According to the Development Director, these three positions are limited-tenure positions that will be eliminated once the capital campaign has been completed. The FY 1998-99 budget for Phase II Capital Campaign fundraising activities is \$480,000 (including personnel and the \$144,000 offset for the operating budget).

¹ The \$14.2 million cited in Section 3.1 as the amount collected thus far in the Capital Campaign was provided by the Zoo in accordance with accounting principles that exclude contingency and verbal pledges, and was the amount collected as of June 30, 1999.

Evaluating the Zoo's Fundraising Efforts

Memberships

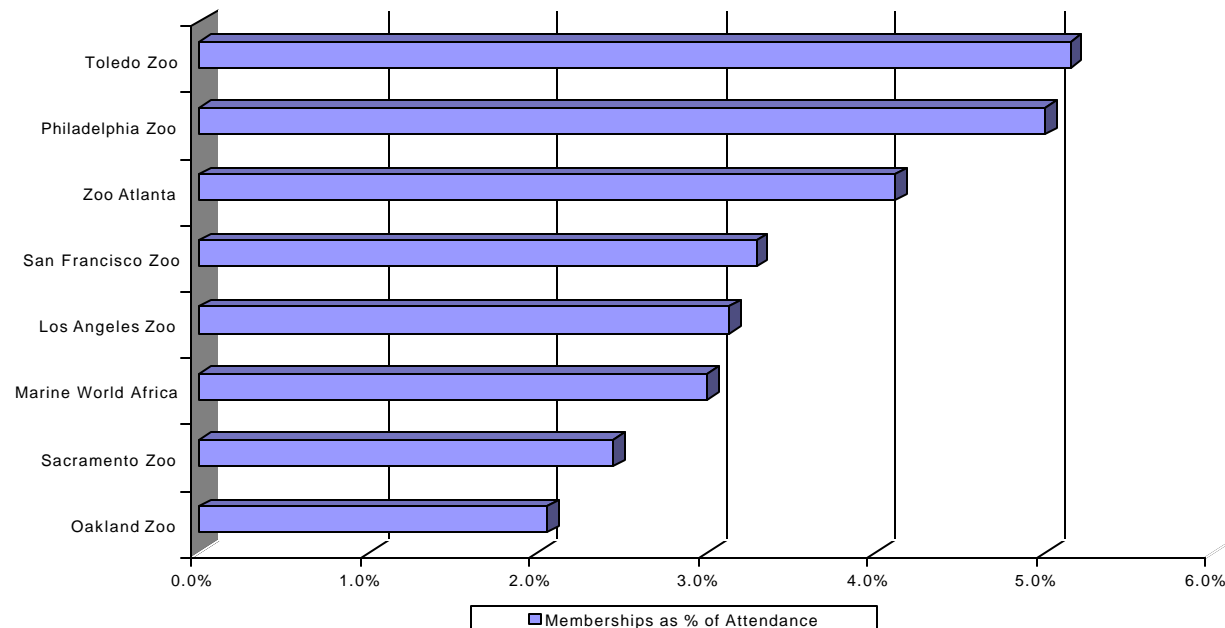
Memberships are considered to be the foundation of support for zoos and other non-profit organizations. Once the Zoological Society converts a visitor to a member, that member becomes an important source of revenue for the Zoo through membership dues, contributions and member events. In addition, by cultivating relationships with its members over time, the Zoological Society hopes to develop as many members into large donors and Board members as possible. Thus, recruiting and retaining members is key part of successful fundraising over the long term.

The Zoological Society currently has approximately 29,000 household memberships, an increase of 7.4 percent (1.2 percent annually) from approximately 27,000 memberships in 1993. According to the Membership Director, the Zoological Society retains between 60 and 70 percent of its members annually. Thus, on an annual basis, the Zoological Society must recruit at least 8,700 to 11,600 new members just to maintain the same number of memberships as the year before. New members are acquired primarily through on-site sales at the Zoo's Membership booth, as well as through direct mail campaigns.

As part of the 1996 Strategic Plan, the Zoological Society's success at converting visitors to members was evaluated by comparing the membership attendance ratios of San Francisco Zoo and seven other zoos. The zoos surveyed included four California AZA accredited zoos (Los Angeles, Marine World Vallejo, Oakland and Sacramento), one zoo with a comparable metropolitan service area (Philadelphia), and two zoos with comparable annual attendance (Toledo and Atlanta). The Budget Analyst updated this analysis to reflect 1997 data from a 1998 AZA survey. The results are shown in Exhibit 4.1.1 below.

Exhibit 4.1.1

**Memberships as a Percentage of Annual Attendance,
San Francisco Zoo and Seven Comparable Zoos, 1997**



As shown in Exhibit 4.1.1, while San Francisco Zoo ranks fourth among the eight zoos in converting visitors to members, its membership attendance ratio of 3.3 percent is below the average of 3.6 percent for the seven other zoos. Thus, as also concluded in the 1996 Strategic Plan, there is potential for the Zoological Society to convert a higher percentage of its visitors to members as other zoos have, such as Toledo and Philadelphia.

Fundraising

In FY 1997-98, the Zoological Society received \$4,134,153 in operating revenue through fundraising, memberships, and events. The Zoological Society received 295 individual contributions ranging from \$500 to over \$25,000 in value and 70 corporate and foundation contributions ranging from \$1,000 to over \$50,000 in value. In addition, fundraising events often generate many individual and corporate contributions in addition to the ticket proceeds. The Zoological Society also has a "Monarch Association", which consists of 85 individuals who have included the Zoological Society in their wills.

As part of the 1996 Strategic Plan, the Zoological Society's success at raising funds for the annual operating budget was evaluated by comparing the dollars raised per Development/Membership staff person at San Francisco Zoo and eight other zoos,

based on 1995 data. The zoos surveyed included Portland, Brookfield (Chicago), San Diego, St. Louis, Cincinnati, Bronx, Lincoln (Chicago), and Phoenix. The results showed that between \$133,000 (Phoenix Zoo) and \$700,000 (Portland Zoo) was raised per staff person, with an average of \$357,000 per staff person, compared to \$266,000 per staff person at San Francisco Zoo. Based on the Zoological Society's audited FY 1998-99 financial statements, revenues from contributions, bequests, membership dues, and fund raising and events, each Development/Membership staff person currently raises an average fundraising of \$422,370.

Return on Investment

One way of evaluating the Zoological Society's performance in fundraising and development is to examine return on investment (ROI), which represents revenue as a percentage of expenses. Based on our research, we identified the following recommended minimum returns on investment for three major categories of fundraising: (a) Memberships – 288 percent, (b) Events – 200 percent, and (c) Major Gift Fundraising – 500 to 550 percent.² The Zoological Society's actual returns on investment for FY 1993-94 through FY 1997-98 for each of these activities are shown in Table 4.1.5 below. It should be noted that the amounts shown under "Expenses" in Table 4.1.5 include allocated administrative costs in order to more accurately reflect the true costs of each of these activities.

Table 4.1.5
Zoological Society Returns on Investment for Fundraising Activities,
FY 1994-95 through FY 1998-99

	1997-98 Actual	1996-97 Actual	1995-96 Actual	1994-95 Actual	1993-94 Actual
MEMBERSHIP					
Revenues	\$ 1,468,542	\$ 1,427,557	\$ 1,442,214	\$ 1,377,622	\$ 1,242,419
Expenses	\$ 933,024	\$ 1,001,692	\$ 1,325,750	\$ 1,326,528	\$ 1,180,774
Return on Investment	157.4%	142.5%	108.8%	103.9%	105.2%
EVENTS					
Revenues	\$ 733,266	\$ 449,097	\$ 441,994	\$ 357,460	\$ 358,326
Expenses	\$ 414,719	\$ 392,963	\$ 336,583	\$ 295,469	\$ 209,664
Return on Investment	176.8%	114.3%	131.3%	121.0%	170.9%
FUNDRAISING					
Revenues	\$ 1,932,345	\$ 1,797,537	\$ 975,188	\$ 1,771,643	\$ 1,078,278
Expenses	\$ 247,459	\$ 307,861	\$ 277,079	\$ 162,037	\$ 189,244
Return on Investment	780.9%	583.9%	352.0%	1093.4%	569.8%

² Adapted from "ROI Analysis", published by the Nonprofit Management Group of Baruch College of the City University of New York (CUNY), 1993.

As shown in Table 4.1.5, the returns on investment for Membership and Events have been well below the industry standards of 288 percent and 200 percent, respectively, in each of the past five fiscal years, indicating that the Zoological Society may be incurring excessive costs for these two activities. On the other hand, Major Gift Fundraising has had returns on investment that have been above the industry standard of 500 to 550 percent for the past two fiscal years. In response to the Budget Analyst's ROI analysis, Zoo management has stated that the Zoo's allocation of overhead expenses to the Development Department has been more than is warranted and with proper allocation, the ROIs for Membership and Events exceed industry standards.

The Budget Analyst also examined the returns on investment for specific events in order to identify whether certain events were more profitable than others. We found that three events, Zoo II Lion House Party, Zoo Run and Zoo Fest, have consistently had returns on investment that were below the industry standard of 200 percent. In fact, according to the Events Director, Zoo Run was discontinued in FY 1998-99 precisely for this reason. On the other hand, Twilight Safari, Sex Tour, and Zoo Fest for Kids have generally had returns on investment in excess of 200 percent. Based on this information, the Zoological Society should continue to evaluate whether certain events should be discontinued due to their lack of profitability, or if there is any potential to reduce costs or increase revenue for these events in order to improve their returns on investment.

Lastly, the Budget Analyst examined returns on investment for the Zoological Society's capital fundraising campaigns, including the Founder's Fund and the Phase II Capital Campaign. Based on actual fundraising expenditures of \$574,349 and revenues of \$13,064,557 between FY 1992-93 and FY 1995-96, the Zoological Society had a return on investment of 2,275 percent for its fundraising activities related to the Founder's Fund. Based on projected fundraising expenditures of approximately \$2,059,912 (based on actual fundraising expenditures through April 1, 1999) and projected revenues of \$25 million, the Zoological Society will have a return on investment of approximately 1,214 percent for its fundraising activities related to the Phase II Capital Campaign. As such, it appears that the Zoological Society is well above the industry standard of 550 percent in its capital fundraising activities.

Suggestions for Reducing Costs

While the Development Department appears to be meeting its fundraising goals in general, there is still potential for improvement in certain areas. Based on our discussions with Zoological Society personnel and our examination of the Department's staffing levels and line item expenditures, we have identified the following areas where costs could be reduced in the Development Department:

- According to Development staff, the San Francisco Zoo is somewhat unique in that it has Events staff dedicated solely to organizing and producing events. In other organizations, events are often organized and produced by fundraising staff and/or third party contractors. As such, we recommend that one Events position (the Associate Director of Events) be eliminated and that part of the responsibility for organizing and producing events be transferred to existing staff in the Fundraising and Membership Programs. Eliminating this position would result in annual savings in salaries and fringe benefits of approximately \$39,752.
- Based on our review of staff functions in the Membership Program, we recommend dividing and transferring the current duties of the Associate Membership Director, which include oversight of the Adopt-an-Animal Program and the planning of member events, among the three existing full-time Membership Assistants, and eliminating the Associate Membership Director position. This would result in savings in salaries and fringe benefits of \$41,639 annually.
- Through vendor discounts, there may be opportunities to consolidate and reduce printing, design, postage and office supply costs, which are spread throughout several programs and line items in the Development Department's budget. Reducing these costs, which total \$265,525 for FY 1998-99, by 10 percent would result in savings of approximately \$27,000 per year.

Implementing the above recommendations would result in savings of \$108,391 annually and would improve the profitability and performance of the Zoological Society's Development programs.

CONCLUSIONS

We found that, in general, the Development Department has been able to meet its fundraising goals for annual operating expenses. The Zoological Society has raised approximately \$21 million of the \$25 million required for capital improvements under the lease agreement.

There is potential for improvement in certain areas. For example, there is potential to improve the Zoological Society's performance in recruiting and retaining members. There are also indications that the Department may be overstaffed and/or that staff members are not generating as much revenue as would be expected. Also, costs for certain fundraising activities are excessive.

The Zoological Society should implement cost reduction measures, including eliminating one Events staff position and the Associate Membership Director position, and continue to evaluate the profitability of certain events in order to

determine whether there is potential to reduce costs or increase revenues, or whether they should be discontinued.

The implementation of our recommendations would result in savings of approximately \$108,391 annually and would improve the profitability and performance of the Zoological Society's Development programs.

RECOMMENDATIONS

The Zoological Society should:

- 4.1.1 Implement measures to improve and evaluate member recruitment and retention.
- 4.1.2 Implement cost reduction measures in the Fundraising, Membership and Events Programs as recommended in this section.
- 4.1.3 Continue to evaluate the profitability of certain events to determine whether they should be discontinued, or if there is any potential to reduce costs or increase revenues for these events. Zoo management has advised the Budget Analyst that all events are periodically reviewed in order to evaluate their profitability.

COSTS/BENEFITS

Implementation of the recommendations in this section would result in savings of approximately \$108,391 annually and would improve the profitability and performance of the Zoological Society's Development programs.